THE MACDONALD-LAURIER INSTITUTE

"True North in Canadian Public Policy"

**National security, national interest and natural resources:
What should Canadians think about CNOOC's bid for Nexen?**

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Speaking notes of Gordon Houlden

Key Points:

- China policy is one of the greatest challenges that Canada faces in the 21st Century
- China has returned to its normal status as a Great Power – please note that I this is a return to a normal status – even though there has been over 150 years since that was last the case
- China sits solidly now in second place in global GDP, but China has already begun .
- I have worked on China policy since 1981, working with every Prime Minister from Pierre Trudeau to Stephen Harper.
- It has been a fascinating journey, but one which has been subject to twists and turns – advances and setbacks – as China has itself changed.
- While still very much an authoritative political system, China can no longer be said to have a Marxist economic system.
- While the story of CNOOC and other State-Owned Enterprises (SOEs) is before us today, we need to remember that China is really now a story of the triumph of private enterprise .
- Heritage Foundation – Wall Street Journal – 2011 index of econ freedom – 2011 - % GDP in Private hands – Japan, 37%, US 38.9%, CDA – 39.7%, France 52%, - **China 20.8%.**
- China does have closed sectors, or partially closed sectors – but earlier this year NDRC announced that there will be 100 projects in state sectors opened up to private investment

- But China is also further opening up its economy to private investment, and Prime Minister Wen Jiabao in July, 2012 signalled that there would be opportunities in the energy, telecoms, railways, and education sectors for private investment.

- On October 16, 2012 China's National Development Reform Commission announced that private construction of China's 3rd W-E gas transmission line would be authorized, as well as a private railway to bring coal from Inner Mongolia to Central China.

- While we may view the speed of Chinese infrastructure developments as excessive, and without adequate consultation with those individuals affected, our own record (especially the un-built Mackenzie gas pipeline) is hardly ideal.

- I mention these developments to underline the fact that the China, and the Chinese economy are dynamic, and evolving, and that the role of private enterprise there is expanding. Just as the China of 1970, when we established diplomatic relations with the PRC, is now almost unrecognizable from the China of 2012, it is not unreasonable that the next generation of Chinese developments will be equally ambitious.

- China has been the largest developing country recipient of foreign investment since the 1980's – often reaching levels of $50 billion – but by 2014 net outflows more significant than the capital inflows.

- We need hundreds of billions of dollars to develop our mineral resources – at least $200 billion for the oil sands alone. We need multinational involvement, and China sits on the largest pool of available investment capital.

- While a sound banking system and prudent fiscal management may have been important factors in preserving the relative stability of the Canadian economy, the growing appetite for raw materials was a major factor in helping Canada to avoid the shocks to the global economy of 2007-2008.

- Without Chinese economic growth Canada would have suffered a much more severe and prolonged recession, occasioned by lower commodity prices, and a diminished global economy (since 2007 China has accounted for the largest single factor in world economic expansion).

- I believe that every large foreign investment into Canada should have to be reviewed – and to meet the test of net benefit to Canada as enshrined in the Canada Investment Act.

- I support the national security test and the SOE test that the Government has added to the Canada Investment Act since 2006.

- But the complex Sino-American relationship, I believe, is also playing into the Nexen debate in Canada.

- A Chinese SOE could not buy a hot-dog stand in Chicago at this juncture without attracting unfavourable attention from the Presidential candidates.

- Even if Nexen is sold to CNOOC the Canadian oil production from CNOOC will continue to flow to the United States for the foreseeable future, to be sold at discounted WTI rates, and without access to the much higher Brent oil prices that could be obtained if we had access to broader world markets.

- Yes, we must take into consideration views of our close ally and security guarantor, but Canadian history would also point to the need to be cautious in accepting US advice on our own China policies.

- In the 1960's –the US opposed the sale of wheat to China by the Diefenbaker government.

- In the 1960s and 1970s Canadian efforts to open diplomatic relations with the PRC were strongly opposed by US until we discovered that President Nixon and his National Security Advisor Kissinger were themselves conducting secret diplomacy that would open a new era in US-China relations.

- Before we beat ourselves up too much over Chinese SOE involvement in the Canadian energy market, we might recall that Chinese SOEs are also present in the US, including in the energy sector, and that while both Presidential candidates are "running against China", the reality of the past several US Administrations is that once the election is over there the successful candidate tends to recognize again the reality of China's status as a Great Power.

- This recognition tends to be followed by a highly pragmatic US China foreign policy that includes economic collaboration as well as competition.

- GM's best customer is China – a market more important to its future than the US market.

- The US Chamber of Commerce has distanced itself from candidate Romney's call to declare China a currency manipulator and the reality of 2012 is that most US Fortune 500 companies see China as essential to their future, and have invested accordingly.

- CNOOC is itself already present in the US through a Joint Venture with Chesapeake Energy – including investments of over $1 billion in shale gas plays.

- CNOOC also has a Joint Venture with another SOE - Statoil in the Gulf of Mexico.

- CNPC has North American investments of over $4 billion in North America, while Sinopec also has a $2.5 billion joint venture with Devon Corporation, with energy properties in Ohio, Louisiana, Oklahoma and Michigan.

- SOEs are widely represented in the Canadian and North American economies, from Japan, Malaysia, Korea, France, and with Norway's Statoil probably the largest SOE, with approximately $20 billion of investment in North American energy projects.

- If there is one thing that we should have learned from 42 years of China policy, it is that policy balance is required – wild gyrations between an absence of any criticism and blanket suspicion towards China are problematic.

- Yes, we must take into account national security concerns, as well as human rights concerns, and China's rising military profile in Western Pacific etc.

- But let us also consider our own economic future - do we want to avoid substantive economic interaction, both in trade and investment with the world's second largest economy?

- Canada is a global investor – the most active single country in exploration for minerals and energy. Nimble Canadian firms are finding and developing mineral resources in a host of countries, including China.

- China is the only country whose trade offers to us some measure of relief from complete reliance on the US market.

- This is the vision of Canadian economic and trade policy that I prefer – an aggressive export-oriented world trader and global investor, that also accepts foreign investment on its own shores, while safeguarding its own national interests and security.

- But if we examine China solely through a security lens, without considering the broader political, trade, economic factors Canada risks having a distorted China policy that is uni-dimensional, at a time when other Western nations, almost without exception, are developing intensive and broadly-based relationships with China.